

July 1999

# MILITARY BASE CLOSURES

## Potential to Offset Fiscal Year 2000 Budget Request



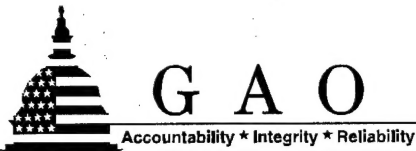
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United States General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

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July 23, 1999

Congressional Committees

Congress enacted base realignment and closure (BRAC) legislation that instituted four BRAC rounds between 1988 and 1995 to help the Department of Defense (DOD) close and realign excess military bases. To fund investment costs of the BRAC actions, Congress established two base closure accounts: the first to fund BRAC actions resulting from the 1988 round and the second, referred to as the 1990 account, to fund BRAC actions resulting from the 1991, 1993, and 1995 rounds. Although DOD's authority to obligate 1988 base closure account funds expired on September 30, 1995, funds in the second account are available for use for an indefinite period. Congress, recognizing the complexities of realigning and closing bases and of providing for environmental restoration and mitigation, allows DOD the flexibility to allocate funds by military service, budget function, and installation. Also, with congressional approval, DOD can redistribute unobligated balances as appropriate to avoid delays in implementing BRAC decisions.

Senate Report 105-213, dated June 11, 1998, on the fiscal year 1999 military construction appropriation bill requested the continuation of our annual review of DOD's base closure accounts and its budget request for base closure activities. This report discusses opportunities to offset the fiscal year 2000 budget request and raises questions about some BRAC funding practices that could make it difficult for Congress to discern DOD's actual funding requirements and priorities. Our scope and methodology are described in appendix I.

## Results in Brief

While the size of DOD's appropriation requests for BRAC activities has declined as BRAC actions have been completed, our analysis of the BRAC accounts and fiscal year 2000 BRAC budget request identifies at least \$66.4 million that could be used to offset DOD's \$1.28 billion BRAC budget request. Specifically:

- about \$11.8 million in proceeds generated by BRAC property transactions have not been reported to Congress and could be used to offset the 2000 budget request;

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- some prior years' appropriations associated with the 1990 base closure account are available but not needed (\$2 million for BRAC military construction (MILCON) projects, \$26.2 million for BRAC operation and maintenance (O&M) activities, and \$6.6 million for BRAC environmental projects);
  - about \$13.8 million from fiscal year 1998 and 1999 appropriations withheld from the services because of lower than anticipated inflation could be used to offset the fiscal year 2000 budget request; and
  - about \$6 million is no longer needed because the funds were requested for three MILCON projects that have already been funded or canceled.

Some of DOD's budgeting practices, such as requests for advance appropriations and the accumulation of large unliquidated obligations for environmental activities, may not clearly reflect the full cost of project requirements and the budgetary resources available to meet those requirements. They make it difficult for Congress to discern DOD's true funding requirements and priorities or the extent to which all previously appropriated funds have been committed to specific projects.

We present a matter for consideration by Congress to appropriate at least \$66.4 million less than DOD is requesting in its fiscal year 2000 BRAC budget submission.

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## Background

In the late 1980s, changes in the national security environment resulted in a Defense infrastructure with more bases than DOD needed. To enable DOD to close unneeded bases, Congress enacted BRAC legislation that instituted base closure rounds in 1988, 1991, 1993, and 1995. For the 1988 round, legislation required DOD to complete its closure and realignment actions by September 30, 1995. For the 1991, 1993, and 1995 rounds, legislation required DOD to complete all closures and realignments within 6 years from the date the President sent the BRAC Commission's recommendations and his approval to Congress.

DOD's authority to obligate 1988 base closure account funds to close or realign bases expired on September 30, 1995. After that date, funds in the 1988 account ceased to be available for new obligations<sup>1</sup> and may be used only to adjust and liquidate obligations already charged to the account. Any

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<sup>1</sup>DOD financial regulations define obligations as amounts of orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment.

unobligated funds in the 1988 account must remain there until Congress transfers them or the account is closed. However, proceeds from 1988 BRAC installation property transactions deposited to the 1988 account may be transferred to the 1990 account. According to DOD officials, the 1988 account will be closed on September 30, 2000, when the remaining obligated and unobligated balances will be permanently canceled. Any subsequent obligation adjustments or payments incurred against the 1988 account will be funded with current appropriations. As of February 1999, the 1988 base closure account contained \$50.3 million in unobligated funds. Appendix II describes the status of funds in the 1988 account.

A different set of rules applies, however, to the 1990 base closure account. Funds in that account are available until expended. Unobligated and unliquidated funds in the 1990 base closure account totaled \$1.5 billion and \$2.5 billion, respectively, on February 28, 1999. These amounts included \$1.6 billion appropriated in September 1998 for fiscal year 1999. New obligations may be incurred and old obligations liquidated against the account until the funds are expended.<sup>2</sup>

According to the Office of Management and Budget's (OMB) Circular A-34, Instructions on Budget Execution, recoveries of prior year obligations that have been deobligated are available for new obligations if their period of availability has not expired. Although the DOD Financial Management Regulation provides financial policy and procedures for base closure and realignment actions, the regulation does not specify procedures for reviewing (1) unobligated balances and promptly obligating funds to valid requirements when original requirements no longer exist and (2) unliquidated obligations and promptly deobligating excess obligations when final costs are known.

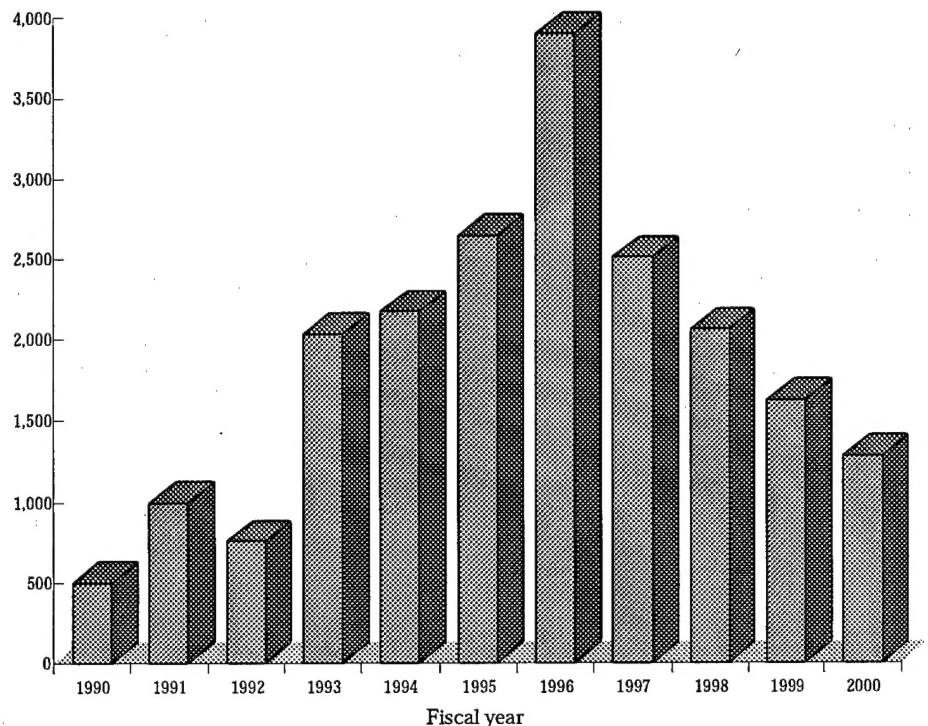
### Appropriations for BRAC Activities Have Declined Since 1996

As shown in figure 1, annual appropriation amounts for BRAC activities peaked at about \$4 billion in fiscal year 1996 and declined each year thereafter as more implementation actions were completed. In February 1999, DOD requested about \$1.28 billion for fiscal year 2000. The request was about \$350 million less than the fiscal year 1999 appropriation and about \$780 million less than the fiscal year 1998 appropriation.

<sup>2</sup>The Secretary of Defense may close the account under certain circumstances.

**Figure 1: BRAC Appropriations for Fiscal Years 1990-99 and Fiscal Year 2000 BRAC Budget Request**

Dollars in millions



Source: Appropriations laws and fiscal year 2000 budget request.

## Opportunities to Offset the Fiscal Year 2000 BRAC Budget Request

Our analysis of the 1990 base closure account and of the fiscal year 2000 BRAC budget request identified at least \$66.4 million that could be used to offset DOD's budget request. This includes about \$11.8 million in unreported proceeds that DOD did not report in its fiscal year 2000 budget request. It also includes about \$34.8 million in unobligated or unliquidated funds remaining in the 1990 account originally allocated for MILCON projects, O&M activities, and environmental activities that are no longer required. In addition, DOD withheld a total of about \$13.8 million in inflation savings from BRAC activities in its 1998 and 1999 programs. Further, the 2000 BRAC budget request contains \$6 million that is no longer needed for three MILCON projects.

## Unreported Proceeds From BRAC Activities That Could Be Used to Offset the Budget Request

The military services collected \$11.8 million more in proceeds from land sales and leases at closing or realigning bases than DOD reported in its fiscal year 2000 BRAC budget request. Statutory and DOD guidance state that proceeds from the transfer, lease, or disposal of BRAC property shall be deposited into the base closure account.<sup>3</sup> Proceeds deposited by a particular military service are generally credited to that service's BRAC program.

Of the \$11.8 million, about \$8 million represent proceeds the Army collected from land transactions related to the 1988 BRAC round and deposited in the 1988 base closure account. Although these proceeds were not reported in the fiscal year 2000 BRAC budget submission, shortly after the budget was submitted, the Army requested that DOD transfer the proceeds from the 1988 BRAC account to the 1990 BRAC account to fund BRAC activities in 1999. As noted previously, proceeds from the 1988 BRAC round deposited into the 1988 account may be transferred to the 1990 account and spent on current base closure activities. However, according to a DOD official, the Army has not developed specific plans for the proceeds.

The remaining \$3.8 million represent proceeds from Navy land sales and leases that were not used to offset the budget request for fiscal year 2000. According to Navy officials, although not reflected in the request for fiscal year 2000, these additional proceeds are reflected in the request for fiscal year 2001. However, because the Navy has already collected the proceeds, the \$3.8 million are available now to offset the fiscal year 2000 budget request.

## Available BRAC MILCON Funding That Could Be Used to Offset the Budget Request

In April 1999, the Army reported having \$2 million that were no longer required to support previously valid BRAC MILCON projects. We found no instances in which these funds were initially made available for unsupported MILCON requirements. However, the Army has no current BRAC requirements for these funds. Although the Army has reprogrammed other unobligated balances to other BRAC requirements, the \$2 million represent available funding that was not considered at the time DOD submitted its fiscal year 2000 budget request to Congress.

<sup>3</sup>Section 2906(a) of the Defense Base Closure and Realignment Act of 1990 (P.L. 101-510 as amended) 10 U.S.C. 2687 note. See also 10 U.S.C. 2667 on the deposit of lease proceeds from BRAC property.

### Available BRAC O&M Funding That Could Be Used to Offset the Budget Request

As of April 1999, the military services collectively had identified \$26.2 million from the 1990 base closure account to fund BRAC 1990 account O&M requirements that no longer existed (see table 1). As with MILCON projects, we found no instances in which funds were initially made available for invalid O&M requirements. Although the services reprogrammed some of these funds to other BRAC requirements subsequent to submission of the fiscal year 2000 budget request, the \$26.2 million represent additional available funding that DOD did not consider at the time it submitted its fiscal year 2000 budget request to Congress.

**Table 1: Funding Available From BRAC O&M Activities**

<b>Military service</b>	<b>Funds available</b>
Air Force	\$6,990,574
Army	13,407,775
Navy	5,776,557
<b>Total</b>	<b>\$26,174,906</b>

Source: Budget documents and interviews with officials from major commands.

### Available BRAC Environmental Funding That Could Be Used to Offset Budget the Request

In April 1999, on the basis of our inquiries, the military services identified \$6.6 million from the 1990 base closure account for BRAC environmental requirements that no longer existed (see table 2). Although the services may have subsequently reprogrammed some of these funds, this \$6.6 million represents additional available funding that DOD did not consider at the time it submitted its fiscal year 2000 budget request to Congress.

**Table 2: Funding Available From BRAC Environmental Activities**

<b>Military service</b>	<b>Funds available</b>
Air Force	\$2,674,272
Army	2,602,308
Navy	1,308,208
<b>Total</b>	<b>\$6,584,788</b>

Source: Budget documents and interviews with officials from major commands.



### Inflation Savings Withheld From BRAC Activities in Fiscal Year 1998 and 1999 That Could Be Used to Offset the Budget Request

DOD currently retains a total of about \$13.8 million in fiscal year 1998 and 1999 inflation savings that could be used to offset the fiscal year 2000 BRAC budget request. Because inflation rates in fiscal years 1998 and 1999 were lower than expected, the Office of the Under Secretary of Defense (Comptroller) withheld funds from the military services. DOD withheld \$26 million from the fiscal year 1998 BRAC program that could have been used to offset its 1999 budget request. Prior to submitting its fiscal year 2000 budget, DOD reprogrammed about \$15.8 million of that amount to support future requirements, leaving a balance of about \$10.2 million still available to offset the 2000 BRAC budget request. In addition, DOD withheld another \$10 million in inflation savings in fiscal year 1999. In May 1999, Congress rescinded \$6.4 million from the 1990 BRAC account. A DOD official told us that DOD plans to use the inflation savings to offset the rescission, which would leave \$3.6 million available.

Although DOD maintains the inflation savings in a holding account for potential reprogramming for other higher priority programs, as of May 1999 the money had not been used. The \$13.8 million in inflation savings that had not been distributed were not considered as an offset to BRAC budget requirements at the time DOD submitted its fiscal year 2000 budget request to Congress. An official from the Office of the Under Secretary of Defense (Comptroller) said that withholding these funds did not adversely affect the BRAC program because the services were able to carry out their programs as budgeted because of lower inflation rates in 1998 and 1999.

### The 2000 Budget Request Contains Unneeded Funds for Three MILCON Projects

The fiscal year 2000 BRAC budget request contains \$6 million for three MILCON projects that have already been funded or canceled. One Army project costing \$3.3 million was accelerated and funded with fiscal year 1999 funds, while the requirement for a second project for \$1.1 million was canceled. The Navy already received fiscal year 1999 funding for a \$1.6 million building renovation project. Because of these actions, the requested funding for these projects is not needed.

### Army Requested \$3.3 Million for a Dining Facility That Has Already Been Funded

The Army requested \$3.3 million for an expanded dining facility that has already been funded. The Army needed funds to provide adequate dining facilities for enlisted personnel and students of the U.S. Army Chemical and Military Police schools, which are being relocated from Fort McClellan, Alabama, to Fort Leonard Wood, Missouri. However, the Army accelerated the project and funded it with fiscal year 1999 funds. Therefore, \$3.3 million



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included in the fiscal year 2000 request is no longer needed for this construction project.

#### Army Request \$1.1 Million for Unneeded Sewage Treatment Project

The Army requested \$1.1 million to construct a sanitary sewer line and connection to a local municipal wastewater treatment plant and to upgrade an existing pumping station in support of minor site closures at Fort Dix, New Jersey. However, Army officials told us that the local utility company and the reuse authority would not agree to the connection unless the Army paid for compliance with additional state environmental requirements. The Army did not include the cost of the environmental compliance in its budget submission. The Army believes the additional expense is not warranted and now plans to continue using the existing utility plant. Therefore, the \$1.1 million included in the fiscal year 2000 request is not needed for this construction project.

#### Navy Requested \$1.6 Million for Building Renovations That Have Already Been Funded

The Navy included \$1.6 million in its fiscal year 2000 budget request for building renovations associated with relocating the Naval Management Systems Support Office from Chesapeake, Virginia, to government-owned space on the Norfolk Naval Base in Norfolk, Virginia. However, in fiscal year 1999, the Navy requested and received nearly \$4 million for the same building renovations and alterations project. Later, the cost of the project was reduced to \$1.6 million. In March 1999, the Navy reprogrammed \$525,000 of the funds appropriated for the project and is planning to reprogram all of the remaining funds (about \$3.5 million) to cover cost growth on unrelated projects. Based on its plans to reprogram all of the \$4 million appropriated for the project in fiscal year 1999, DOD included an additional \$1.6 million in its fiscal year 2000 budget to fund this project. As of July 1999, however, DOD had not notified Congress of any additional reprogramming of funds beyond the initial \$525,000. Therefore, we believe there is sufficient funding available for this project without new appropriations for fiscal year 2000.

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#### Some DOD Practices Do Not Clearly Reflect Funding Requirements And Priorities

DOD's requests for advance appropriations and the accumulation of large unliquidated obligations for environmental activities can make it difficult for Congress to discern the full cost of DOD's BRAC requirements and priorities. We are continuing to examine these practices to identify areas where DOD could improve its fund management and more clearly show funding needs in its budget requests.

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## Fiscal Year 2000 BRAC Budget Requests Only Partial Funding

DOD's budget request for fiscal year 2000 includes \$1.28 billion for BRAC funding. However, the Department requested that only \$706 million be appropriated for fiscal year 2000, with the remaining \$577 million to be provided as new budget authority in fiscal year 2001. According to DOD and OMB officials, the appropriations requested for fiscal year 2001 are for MILCON and environmental projects that would be started in fiscal year 2000 but would not need the additional funding until the second year and beyond.

DOD's request for advance appropriations splits budget authority for fiscal year 2000 projects between fiscal year 2000 and 2001.<sup>4</sup> This deviates from DOD's standard practice of requesting the full funding needed for each project in a single annual appropriation. According to DOD and OMB officials, deferring full funding for the BRAC projects enables DOD to include more modernization funds in its fiscal year 2000 budget within current budget caps and still provide assurance that the remaining funding will be available for BRAC in fiscal year 2001.

While the advance funding proposal provides DOD greater flexibility in budgeting, it has consequences for oversight of government obligations. DOD's prior practice of requesting budget authority for the full cost of projects before an acquisition was made ensured that the full costs of projects were recognized at the time Congress and the President made the commitment to undertake them. According to OMB's principles,<sup>5</sup> full funding in the budget year with regular appropriations is preferred because it leads to tradeoffs with other proposed spending within the budget year. In contrast, funding for a project over several years with regular appropriations for the first year and advance appropriations for subsequent years may bias tradeoffs in the budget year in favor of the proposed project because the full cost of the project is not included in the first budget year.

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<sup>4</sup>DOD's fiscal year 2000 budget requests a total of \$3.1 billion in advance appropriations for MILCON and family housing projects for fiscal year 2001. Of this amount, \$577 million is related to BRAC activities.

<sup>5</sup>Analytical Perspectives, Budget of the United States Government Fiscal Year 2000, Office of the President of the United States, pp. 158-159.

## DOD Has Large Unliquidated Obligations for BRAC Environmental Activities

As of February 28, 1999, DOD had \$455.9 million in unliquidated obligations for 1991 and 1993 BRAC round environmental activities, some of which could be available to reduce the fiscal year 2000 BRAC budget request.<sup>6</sup> According to DOD and military service officials, the services use indefinite delivery/indefinite quantity contracts<sup>7</sup> for the majority of their BRAC environmental activities. These types of contracts provide the primary method for completing BRAC environmental projects, and we believe that most of the \$455.9 million in unliquidated obligations are under indefinite delivery/indefinite quantity contracts.

On the basis of our work with other agencies, we know that contracts for environmental projects can result in the accumulation of large unliquidated obligations.<sup>8</sup> Although DOD and military service officials told us the services review unliquidated obligations and the environmental requirements for which the funds were obligated, the officials could not provide documentation that showed the results of their reviews. As of May 7, 1999, these officials could not provide us with any data on the status of the contracts with unliquidated obligations.

According to Army Corps of Engineers officials, indefinite delivery/indefinite quantity contracts are used because of the uncertainties associated with environmental cleanup activities. However, these officials also acknowledged that the use of these contracts when specific requirements and costs are unknown could also contribute to large unliquidated obligations in environmental subaccounts. According to the officials, analyzing environmental projects and their unliquidated obligations to identify funds that are no longer needed was not a high priority until fiscal year 1999. At the time of our review, the Army Corps of Engineers was developing a structured approach to assess whether there were excess unliquidated obligations for environmental projects.

<sup>6</sup>However, because we could not determine how much of these unliquidated obligations might not be required, we did not include any specific amount related to this area in our calculation of potential offsets to the fiscal year 2000 BRAC budget request.

<sup>7</sup>Under indefinite delivery/indefinite quantity contracts, DOD may obligate funds without designating the funds to a specific task within the overall contract.

<sup>8</sup>Environmental Protection: EPA's Progress in Closing Completed Grants and Contracts (GAO/RCED-99-27, Nov. 20, 1998); Environmental Protection: EPA's Fiscal Year 1999 Budget Request (GAO/RCED-98-259R, Sept. 29, 1998); DOE Management: DOE Needs to Improve Its Analysis of Carryover Balances (GAO/RCED-96-57, Apr. 12, 1996); NASA Budget: Carryover Balances for Selected Programs (GAO/NSIAD-96-206, July 16, 1996); and Energy Management: Additional Uncosted Balances Could Be Used to Meet Future Budget Needs (GAO/RCED-94-26, Oct. 26, 1993).

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In commenting on a draft of this report, DOD said that the technological complexities of the environmental activities, coupled with lengthy negotiations with regulators and local communities, have resulted in some schedule delays, which have slowed the liquidation of funds. Nonetheless, this issue is under review and DOD is still collecting data from the military services to make an assessment.

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## Conclusions

At least \$66.4 million of the fiscal year 2000 BRAC budget request could be offset by funds already available. These include unreported proceeds from BRAC land transactions, unused funds allocated to the 1990 base closure account, inflation savings, and funding from three MILCON projects that have already been funded or are no longer needed. These funds are available to DOD without new appropriations. Further, some practices such as requests for advance appropriations and the accumulation of large unliquidated obligations for environmental activities can make oversight of DOD's BRAC accounts more difficult.

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## Matters for Congressional Consideration

Because prior year funds are available to meet requirements and other funds requested are no longer supported by specific requirements, Congress may wish to consider appropriating at least \$66.4 million less than DOD is requesting in its fiscal year 2000 BRAC budget submission.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD partially agreed with our findings that the fiscal year 2000 budget should be offset by available funds. Of the proposed reductions of \$79.5 million, DOD concurred with \$16.2 million and did not concur with \$63.3 million. Specifically, DOD stated that (1) \$34.8 million in unobligated balances is unavailable as an offset because it has already been earmarked for valid unfunded BRAC requirements; (2) of a total \$20.2 million in inflation savings, \$10.2 million from fiscal year 1998 inflation savings is not available as an offset because the savings was returned to the services, and an additional \$10 million in fiscal year 1999 inflation savings was fully considered during formulation of the fiscal year 2000 budget; and (3) only \$4.4 million for two MILCON projects, of the \$12.7 million, is available because one Army project for \$6.7 million will not be accelerated as planned and one Navy project for \$1.6 million was not previously funded in fiscal year 1999, as we reported.

DOD also noted that without advanced appropriations, as requested for the military construction account, the Department would be forced to slow the pace of cleanup at closing bases. It further stated reductions of the magnitude suggested in our report would eliminate the management flexibility envisioned by Congress and adversely impact DOD's ability to close installations and speed the economic recovery of affected communities. Addressing our concern that large unliquidated obligations are accumulating for environmental activities, DOD responded that the issue is under review and that it is still collecting data to determine if there is indeed a problem.

Of the \$63.3 million DOD questioned in our draft report, DOD was able to provide documentation that \$13.1 million was needed for valid requirements. This included \$6.7 million for an Army maintenance facility project that was not accelerated as planned and \$6.4 million in inflation savings that was rescinded by Congress in May 1999. Accordingly, we revised the \$79.5 million estimate that appeared in our draft report by \$13.1 million to reflect these changes leaving total available funds to offset DOD's 2000 budget request of \$66.4 million.

We continue to believe Congress may wish to consider appropriating at least \$66.4 million less than DOD requested in its fiscal year 2000 BRAC budget because these prior year funds are available to meet requirements. While we recognize that the military services have reprogrammed some previously appropriated funds to other BRAC requirements, the \$34.8 million in unobligated balances represents additional available funding that was not considered at the time the fiscal year 2000 budget request was submitted to Congress. After the budget submission, the major commands and the Army Corps of Engineers found that the requirements for these funds no longer existed, and they could provide no evidence of how they would use the unobligated balances. Also, we initially included in our draft report that \$20.2 million in inflation savings previously withheld by DOD from the services could be used to offset the budget request. However, Congress rescinded \$6.4 million of this amount in May 1999. Therefore, we revised this estimate to \$13.8 million in inflation savings still available to offset the 2000 budget request. We found no evidence that these funds were considered during the budget formulation.

Additionally, our draft report included \$12.7 million for four MILCON projects in DOD's 2000 budget request for which funds are no longer needed. These include a \$3.3 million project to expand an Army dining facility and a \$1.6 million Navy renovation project that have already been

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funded. Also included were a \$1.1 million Army utility connection project that was canceled and a \$6.7 million Army maintenance facility project that was planned to be accelerated. However, the Army provided us with documentation in June 1999 that indicated the maintenance facility project would not be accelerated as planned. Therefore, we revised the amount of funds available from these MILCON projects to a total of \$6 million available to offset the fiscal year 2000 budget.

We disagree that advance funding, as opposed to the general practice of fully funding DOD's MILCON budget requirements, would force DOD to drastically slow the pace of cleanup at closing bases. As we stated in this report, requesting advanced appropriations for military construction projects would have a negative impact on congressional oversight and make it difficult for Congress to get a clear view of DOD's program priorities

Finally, regarding DOD's concern that reductions of the magnitude suggested in our report would limit the management flexibility envisioned by Congress and adversely impact the Department's ability to close installations, we agree that Congress provided the Department with flexibility to reprogram funds. At the same time, Congress approves funding and the Office of the Under Secretary of Defense (Comptroller) makes funds available to DOD components according to their official, detailed budget justification and financial plan. At the time we completed our review, none of the services indicated a specific need associated with the funds we identified as available to offset DOD's fiscal year 2000 budget request. DOD's comments and our evaluation of them are reprinted in full in appendix III.

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We are sending copies of this report to Senator Ted Stevens, Chairman, and Senator, Daniel K. Inouye, Ranking Minority Member, Subcommittee on Defense, Senate Committee on Appropriations; and Representative John Lewis, Chairman, and Representative John P. Murtha, Ranking Minority Member, Subcommittee on Defense, House Committee on Appropriations; the Honorable William S. Cohen, Secretary of Defense; the Honorable William J. Lynn, Under Secretary of Defense (Comptroller); the Honorable F. Whitten Peters, Acting Secretary of the Air Force; the Honorable Louis Caldera, Secretary of the Army; the Honorable Richard Danzig, Secretary of the Navy; and the Honorable Jacob J. Lew, Director, Office of Management and Budget. Copies will also be made available to others upon request.

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If you have any questions regarding this report, please contact me at (202) 512-8412. Other contacts and key contributors to this report are listed in appendix IV.

A handwritten signature in black ink, reading "David R. Warren". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

David R. Warren, Director  
Defense Management Issues



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List of Congressional Committees

The Honorable John Warner  
Chairman  
The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Conrad Burns  
Chairman  
The Honorable Patty Murray  
Ranking Minority Member  
Subcommittee on Military Construction  
Committee on Appropriations  
United States Senate

The Honorable Floyd D. Spence  
Chairman  
The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

The Honorable David L. Hobson  
Chairman  
The Honorable John W. Olver  
Ranking Minority Member  
Subcommittee on Military Construction  
Committee on Appropriations  
House of Representatives

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## Abbreviations

BRAC	base realignment and closure
DOD	Department of Defense
MILCON	military construction
OMB	Office of Management and Budget
O&M	operation and maintenance

# Scope and Methodology

To identify opportunities to offset the Department of Defense (DOD) budget request for fiscal year 2000 base realignment and closure (BRAC) activities, we focused on prior fiscal year appropriations that had not been obligated or liquidated and that may be available to fund BRAC activities during fiscal year 2000. Because BRAC actions for the 1991 and 1993 rounds were required to be completed by July 1997 and July 1999, respectively, we questioned the need for the unobligated funds and unliquidated obligations that were still allocated to these rounds. We examined a variety of DOD and military service budget and financial documents; analyzed implementation legislation for the base closure accounts; examined budget execution data for BRAC military construction (MILCON), operations and maintenance, environmental, and undistributed funds; compared execution data with Office of Management and Budget (OMB) and DOD guidance and goals; and reviewed guidance on the use of funds in the base closure accounts and recent audits of unobligated balances and unliquidated obligations in the accounts.

Our 1999 audit of the federal government's fiscal year 1998 consolidated financial statements identified billions of dollars in DOD unreconciled cash disbursement activity.<sup>1</sup> As a result of these accounting problems, in this audit we reconciled the reported unliquidated obligations with those reported by the major commands to verify that all transactions had been recorded for those BRAC projects and activities with balances that could be deobligated. Specifically, we discussed the need for the unobligated funds and unliquidated obligations in the 1988 base closure account for the 1988 round with officials from DOD, the military services, and several major commands to determine the availability of funds to apply to other BRAC requirements. Additionally, we discussed the need for the unobligated funds and unliquidated obligations in the 1990 base closure account for the 1991 and 1993 rounds with these officials to identify previous fiscal years' funding that may be available during fiscal year 2000 and that was not anticipated at the time DOD submitted the BRAC budget request to Congress. In cases where officials said the unobligated funds and unliquidated obligations were no longer needed or could not provide a specific requirement for these funds, we considered the balances available to fund requirements in the budget request. Additionally, in some cases, the services identified unobligated and unliquidated funds from the 1995 base closure round that may be available during fiscal year 2000 that was not

<sup>1</sup>Financial Audit: 1997 Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, Mar. 31, 1998).

considered at the time DOD submitted its budget request. Again, in cases where officials said the unobligated funds and unliquidated obligations were no longer needed or could not provide a specific requirement for these funds, we considered the balances available to fund requirements in the budget request. We also compared data on proceeds from land sales and leases with those reported in the fiscal year 2000 budget request to identify fiscal year BRAC revenues that had not been reported to Congress and not used to offset DOD's budget requests for fiscal year 2000 and prior fiscal years. To identify funds withheld from the BRAC program due to inflation savings and that could be used to offset the 2000 budget request; we interviewed DOD officials and collected documentation showing the status of inflation savings withheld during fiscal years 1998 and 1999.

To validate DOD's budget request for fiscal year 2000, including MILCON projects, we reviewed fiscal year 2000 and prior fiscal year budget requests and supporting justifications from DOD, the Defense Logistics Agency, the Defense Information Systems Agency, and the military services. We obtained and reviewed data on requirements to support the budget requests for selected bases and sub-accounts. We reviewed OMB and DOD guidance on the preparation and justification of budget requests, policy guidance and submission requirements for the fiscal year 2000 and prior BRAC budget requests, internal review procedures for validating budget submissions from major commands, and DOD program budget decision documents. We also met with OMB officials to discuss DOD's request for advanced appropriations, particularly for BRAC funding.

We also compared the amounts requested for operations and maintenance activities and environmental projects at installations in the fiscal year 2000 budget request with their unobligated balances and unliquidated obligations. We discussed the results of this comparison with officials from DOD, the military services, and several major commands to verify that additional appropriations were needed to fund fiscal year 2000 requirements for these installations. We reviewed recent audits of MILCON projects in the fiscal year 2000 budget request and prior requests to determine the magnitude, scope, and results of the audits. To verify MILCON requirements, we compared the audit results with the MILCON projects included in the fiscal year 2000 budget request to determine whether the results were reflected in the budget request. We discussed our comparison with officials from the Defense Logistics Agency and the military services to determine whether the MILCON projects and requirements were still valid.

We interviewed and obtained data from DOD officials, including officials from the Defense Logistics Agency, the Defense Finance and Accounting Service, the DOD Inspector General, the Air Force, the Army, and the Navy. Within the Air Force, we met with officials from the Office of the Chief of Staff, the Office for Financial Management and Comptroller, the Air Force Base Conversion Agency, the Air Combat Command, the Air Education and Training Command, the Air Mobility Command, and the 11<sup>th</sup> Wing. Army organizations we met with included the Assistant Chief of Staff for Installation Management, the Office of the Comptroller, the Corps of Engineers, the Army Forces Command, the Communications-Electronics Command, the Materiel Command, the Medical Command, the Military Traffic Management Command, the Training and Doctrine Command, and the Army Military District of Washington, D.C. Within the Navy, we met with officials from the Naval Facilities Engineering Command, the Office of the Comptroller, the Naval Air Systems Command, the Naval Sea Systems Command, and the Naval Audit Service.

In performing this review, we used the same accounting systems, reports, and statistics the military services use to monitor their BRAC programs. We did not independently determine the reliability of this information.

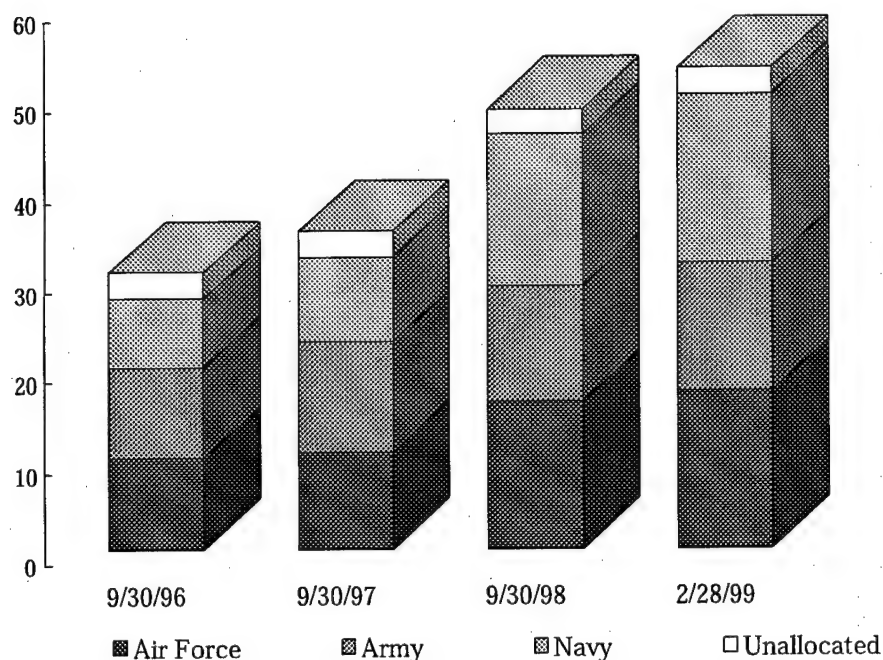
We conducted our review from January to May 1999 in accordance with generally accepted government auditing standards.

# Status of Funds in the 1988 Base Closure Account

Unobligated funding balances in the 1988 base closure account continue to grow. As of February 28, 1999, the account contained \$50.3 million in unobligated funds.<sup>1</sup> As shown in figure II.1, the unobligated amount rose by about \$20 million since the end of fiscal year 1996. According to program officials, the increase occurred because the military services deobligated funds from requirements that no longer existed. Program requirements tend to change, and in some cases disappear, as BRAC actions are implemented. As the services' deobligation process continues, the unobligated balance in the 1988 account will increase. The unliquidated amounts have fallen steadily since 1995 as DOD has implemented and paid for BRAC actions.

**Figure II.1: Unobligated Balances in the 1988 Base Closure Account Since September 30, 1996**

Dollars in millions



Source: Appropriations Status by Fiscal Year Program and Subaccounts, Form (DDCOMP (M)) 1002s, as dated above, Defense Finance and Accounting Service.

<sup>1</sup>On February 28, 1999, unliquidated obligations in the account totaled \$71.1 million.



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**Appendix II**  
**Status of Funds in the 1988 Base Closure**  
**Account**

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As we reported in 1998, program officials stated that pursuant to a DOD Office of General Counsel memorandum, the unobligated funds in the 1988 account are used only to adjust and liquidate obligations that have already been charged to the account.

# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100



JUL 1 1999

Mr. David R. Warren  
Director, Defense Management Issues  
National Security and International Affairs Division  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense response to the General Accounting Office (GAO) Draft report, "MILITARY BASE CLOSURES: Potential to Offset Fiscal Year 2000 Budget Request," dated May 14, 1999, (GAO Code 709390/OSD Case 1819).

I was pleased to read your acknowledgement that the Department continues to reduce our annual budget request for the Base Closure Account as more implementation actions are completed. I was also pleased to read that you were able to verify that the Department continues to use base closure funds only for valid base closure requirements. However, the Department only partially concurs with the report's view that the Department's fiscal year (FY) 2000 request should be reduced. Of the proposed reductions totaling \$79.5 million identified in the report, the Department concurs with \$16.2 million and nonconcurs with \$63.3 million. Specifically, my objections are as follows:

The draft report alleges that \$34.8 million in unobligated balances are available to finance FY 2000 requirements. Anticipated unobligated balances in the BRAC program were taken into account by offsetting FY 2000 requirements, thus enabling the Department to minimize the amount of appropriations needed in FY 2000 to support the program. Since these balances have already been earmarked for valid unfunded requirements, the proposed reduction would be duplicative and would result in program delays.

The draft report states that \$20.2 million has been withheld from the Military Services in FY 1998 and 1999 for inflation savings and can be used as offsets for the budget request. FY 1998 inflation savings were returned to the Services prior to the end of FY 1998 to address funding shortfalls existing at the time. As with the unobligated balances above, the FY 1999 inflation savings were fully considered during formulation of the FY 2000 budget request and, therefore, are not available as offsets. In addition, Public Law 106-31 recently rescinded \$6.4 million of these balances.

The draft report contends that \$12.7 million worth of projects were accelerated or canceled; however, only two projects totaling \$4.4 million were accelerated or canceled. Contrary to the report's assertions, the Army's maintenance facility project (\$6.7 million) has not been accelerated, and the Navy's building renovations and alterations project (\$1.6 million) has not been, nor is it expected to be, funded with FY 1999 balances.

Now on p. 4.

See comment 1.

Now on p. 7.

See comment 2.

Now on pp. 7 and 8.

See comment 3.

Appendix III  
Comments From the Department of Defense

Now on p. 9.

See comment 4.

Now on p. 10.

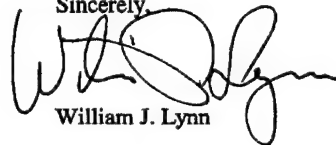
The draft report states that the use of advance appropriations may not clearly reflect the full cost of project requirements. The Department was extremely careful to request full program authorization for the FY 2000 program and to ensure that enough resources would be made available in FY 2000 to prevent any disruption to program execution. The use of advance appropriations also will enable the Department to stay within the fiscal constraints of the budget agreement while at the same time retaining an aggressive base closure and cleanup schedule. Without advance appropriations, the Department would have been forced to drastically slow the pace of cleanup at closing bases.

The draft report also asserts that a large balance of unliquidated obligations exists for environmental activities in the base closure account resulting from the use of indefinite delivery/indefinite quantity contracts. However, the Department believes that the technological complexities of the environmental activities, coupled with lengthy negotiations with regulators and local communities, have resulted in some schedule delays which have slowed the liquidation of funds. Nonetheless, this issue is under review and we are still collecting data from the Services to determine if there is indeed a problem.

The Congress has recognized the complexities of realigning and closing bases, and has given the Department the flexibility to allocate, reprogram, and redistribute unobligated funds as appropriate to avoid delays and complete realignment and closure actions within mandated schedules. If reductions of the magnitude suggested in the draft report are taken against the base closure program, it will adversely impact our ability to close and cleanup installations and speed the economic recovery of affected communities. It would also eliminate the Department's flexibility to effectively manage base closure resources as envisioned by Congress.

I appreciate the opportunity to comment on the draft report.

Sincerely,



William J. Lynn

cc: Honorable Conrad Burns  
Honorable David Hobson

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The following are GAO's comments on the letter from the Under Secretary of Defense, Comptroller, dated July 1, 1999.

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## GAO Comments

1. We believe the \$34.8 million in unobligated balances represents additional available funding that was not anticipated at the time the fiscal year 2000 budget request was submitted to Congress in February 1999. The \$34.8 million was identified during interviews in March and April with officials from the services' major commands and the Army Corps of Engineers. As a result of reviews of their unobligated balances and unliquidated obligations during January, February, March, and April 1999, the major commands and the Army Corps of Engineers found that requirements for these funds no longer existed. At the time of our review, DOD and service officials could not provide supporting documentation that showed how they would use the unobligated balances, nor did they identify plans to redesignate to other BRAC needs those funds we identified as potentially available to offset DOD's fiscal year 2000 budget request.

2. Documentation initially available to us showed \$20.2 million in inflation savings being held by DOD--\$10.2 million from fiscal year 1998 and \$10 million from fiscal year 1999—that had not been returned to the services. DOD provided no documentation to support how these funds were to be used or that the funds were returned to the services. Subsequently, P. L. 106-31, enacted in May 1999, rescinded \$6.4 million from the 1999 BRAC appropriation. Congress did not specify that this amount should come from inflation savings. An official from the DOD Comptroller's Office stated DOD intends to use the inflation savings to offset the rescission. Therefore, we reduced our estimate of inflation savings available to offset the 2000 BRAC budget from \$20.2 million to \$13.8 million to account for the rescission.

3. We continue to believe that the 2000 BRAC budget request contains \$6 million for three separate military construction projects that are no longer required. DOD agreed that \$4.4 million for two Army projects were accelerated or canceled in fiscal year 1999. Also, on the basis of documentation provided by the Navy, we continue to believe that sufficient funding is available from the fiscal year 1999 appropriations to pay for the Navy's \$1.6 million building renovations project and there is no need to appropriate new funds for this project in fiscal year 2000. In June 1999, the Army decided its \$6.7 million maintenance facility project would not be accelerated as planned and provided GAO documentation to support this change. As a result, we revised our overall estimate of MILCON project

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funding available to offset the fiscal year 2000 budget from \$12.7 million in our draft report to \$6 million.

4. We continue to believe that engaging in a process of advance appropriations for military construction projects as a method for funding near-term modernization requirements is not consistent with DOD's general practice of fully funding for military construction projects and will not enhance congressional oversight. According to OMB's principles, and as our report points out, full funding in the budget year with regular appropriations is preferred because it leads to tradeoffs with other proposed spending within the budget year. In contrast, funding for a project over several years with regular appropriations for the first year and advance appropriations for subsequent years may bias tradeoffs in the budget year in favor of the proposed project because the full cost of the project is not included in the first budget year.

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# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Acknowledgments

In addition to those named above, Claudia Dickey, Mark Little, Margaret Morgan, Robert Poetta, Tracy Whitaker, and Bill Woods made key contributions to this report.

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